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Senior Manager, Financial Services Group
Australian Securities and Investments Commission
Level 7, 120 Collins Street
Melbourne VIC 3000

To the Senior Manager of the Financial Services Group,

Intervening to Stop Consumer Harm in Short Term Credit Consultation [19-177MR]

Uniting Vic.Tas welcomes the opportunity to provide comment to the Australian Securities and Investments Commission (ASIC) consultation on the Proposal to Intervene to Stop Consumer Harm in Short Term Credit.

About Uniting
Uniting is the community services organisation of the Uniting Church in Victoria and Tasmania. Uniting was created from the merger of a number of UnitingCare agencies in July 2017. One of these agencies, UnitingCare Kildonan worked in the area of vulnerability for 135 years and this long history and experience has been transferred into the work Uniting does in supporting vulnerable individuals, families and communities, focused in the inner and outer North of Melbourne, including financial counselling. This experience has led to Uniting being invited to advise State and Commonwealth Government on issues of consumer hardship and be a member of many public sector and corporate consumer advisory councils.

Uniting's experience with the detrimental impacts of short-term credit models
Uniting welcomes the preferred action proposed by ASIC to:

- Prohibit the ability for credit providers and their associates to charge fees or other charges in excess of the cost restrictions under the short-term credit exemption; and
- Protect vulnerable consumers from the significant detriment caused from the use of the short-term lending model.

Predatory lenders, like Cigno Pty Ltd and Gold-Silver Standard Finance Pty Ltd, utilise a model of providing short term loans and charging exorbitant fees under different contracts. They thereby avoid the regulations imposed on small amount credit contracts under the National Credit Code, which include limiting the amount of fees that can be charged. This model also means that consumers do not have other rights to and various other protections and provisions of the *National Consumer Credit Act 2009* (Cth) and the National Credit Code, including proper responsible lending assessments and access to hardship provisions.

Uniting, through our financial counselling services, sees firsthand the significant detriment caused by these models. The three case studies below illustrate some of the consequences arising from the use of the short-term lending model. Please note that the names have been changed for confidentiality purposes.

Case Study 1 (provided by Uniting's financial counselling services)

A middle-aged man who started with a loan of $250 had his loan blow out to $1,097 within 8 months. The nature of the model (that is, fees increasing in such an exponential fashion) and the loan being provided at a time when he was extremely vulnerable because he was facing homelessness significantly contributed to his bankruptcy declaration.

Case Study 2 (provided by Financial Counselling Australia)

Michael cancelled his Cigno loan direct debit with the bank but Cigno changed a reference number and a deduction was still made. He was banking with Commonwealth Bank and lodged a complaint, but staff said they were unable to assist. Michael is in his 40s and lives on Newstart as he has been unable to work for a few years due to mental health issues. He borrowed $300 to pay living expenses because his direct debits left him with no money for food and medication. Cigno has been deducting $40 per fortnight out of his $490 income. Michael believes he has already repaid $360 but Cigno told Michael he still owes another $300. The direct debit was cancelled again, with his financial counsellor informing Cigno of this and advising Cigno that no further payments would be made, particularly since the principal plus reasonable interest had been already paid. Furthermore, Michael had no capacity to pay without sacrificing basic living expenses, he was homeless at the time he took out the loan, he was only receiving Newstart, and his situation was not likely to change in the foreseeable future. No response was received from Cigno.

Case study 3 (provided by Uniting's financial counselling services)

Jeanine is a middle-aged single mum. Her son has a disability and they are both living with family members, to whom she pays board. She had to return from living interstate as she was fleeing a family violence situation. Jeanine took a loan out 1 year ago when she left her ex-husband and was trying to re-establish herself. She said the loan was for $300 to buy food. The agreed repayment amounts were $30 per fortnight. Jeanine paid enough initially to cover the principal amount but has not made payments for many months. The cost of her move and caring for her son (even though she receives NDIS support) does not enable her to continue repayments. This debt is now around $1,500. This case is not resolved yet, however, Uniting will be applying for a waiver.

Uniting has also witnessed examples with other short-term lending suppliers of people being charged $1,300 in fees for a $3,200 loan where their family car was used as collateral and, therefore, as a threat. This has occurred through agencies such as Cash Converters, Money 3 and Swoosh.

In our experience, some people are desperate for funds and are afraid to 'rock the boat' as they do not want to damage their relationship with the short-term lender and close this potential avenue of funding.

While Uniting agrees with ASIC's view that limiting fees will produce the best outcomes for consumers, we also feel that this should be implemented along with ASIC's second proposed option to encourage the use of alternative products or action through warning messages, as many consumers are still not aware of the dangers in engaging with short term credit providers.

Thank you for the opportunity to comment and we look forward to seeing the outcomes of ASIC's consultation on this important matter.

Yours sincerely,

Anna Matina
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Kildonan and Lentara Cluster
Uniting Vic.Tas